

# Governor Snyder's Plan to Modernize Michigan's Health Insurance Market

Briefing



**While Governor's plan is not what BCBSM would have proposed, it largely meets BCBSM's principles of regulatory reform**

**BCBSM's guiding principles for reform:**

- Reform should allow BCBSM to remain a non-profit, Michigan based company
- Reform should allow BCBSM to continue our mission to expand access to affordable care and improve the health of the people of Michigan
- Reform should create a level-playing field within Michigan; where all insurers play by the same rules
- Reform should not negatively impact the strong relationships we have with our stakeholders

## Key elements of the Governor's plan would modernize Michigan's health insurance market

These are the key points we would like to cover with you today regarding the Governor's plan:

1. Regulates all health insurers under the same set of rules – creating a **level playing field** to increase competition, reduce health care costs, improve quality, and give customers more choices while also ensuring that **BCBSM pays state taxes**
2. Establishes an **unprecedented \$1.5 billion contribution** from BCBSM for the health of Michigan's people
3. Ensures that BCBSM will continue to be a **nonprofit, Michigan based health insurer** providing access to high-quality, affordable health insurance for Michigan citizens

## **Governor's proposal transitions BCBSM into a nonprofit mutual company**

### **What is a mutual?**

- A mutual is a common governance structure for an insurer
  - Some of the most well known insurers in Michigan are organized as a mutual, including Farm Bureau and Frankenmuth Insurance
  - There are 12 other Blues mutuals in 14 states
- Ownership of a mutual resides with its members

### **The proposal**

- Legislation would allow BCBSM to transition to a nonprofit mutual under the insurance code
- BCBSM board would have to approve the transition
- BCBSM wants to remain nonprofit, thus an amendment is required to the insurance code to create a nonprofit mutual

## LEVEL PLAYING FIELD

**Governor Snyder's plan regulates all health insurers under the same set of rules, giving Michigan modern regulations that encourage a stronger marketplace**

A level playing field would increase competition, reduce health care costs, improve quality, and give customers more choice

- This proposal **levels the playing field** because:
  - All health insurers would be regulated under the Insurance Code and will play by the same rules
  - BCBSM would have to pay state and local taxes like commercial insurance companies
  - BCBSM will not have any special regulatory advantages or burdens – it will be regulated under the same rules as commercial insurers

## UNPRECEDENTED CONTRIBUTION

**The \$1.5 billion contribution is an unprecedented opportunity for Michigan**

**BCBSM will make a \$1.5 billion contribution in support of creating a healthier Michigan**

- BCBSM would **contribute \$1.5 billion** over 18 years to a nonprofit foundation established to invest in key health care priorities for the people of Michigan
- Funds from the non-profit Michigan Health and Wellness foundation will not be controlled by BCBSM
- Half of the contribution each year will be disbursed to invest in key health care priorities for today and future generations
- The Foundation would be required to subsidize Medigap coverage for seniors in need (60 percent of the disbursed funds)
- The 13-member non-profit board will be appointed by the Governor with appointee recommendations from each caucus leader
- Key interest groups will be represented on the board including representatives of minor children, seniors, the general public, organized labor, and small business.
- Board meetings will be open to the public and accounts will be subject to audit



## UNPRECEDENTED CONTRIBUTION

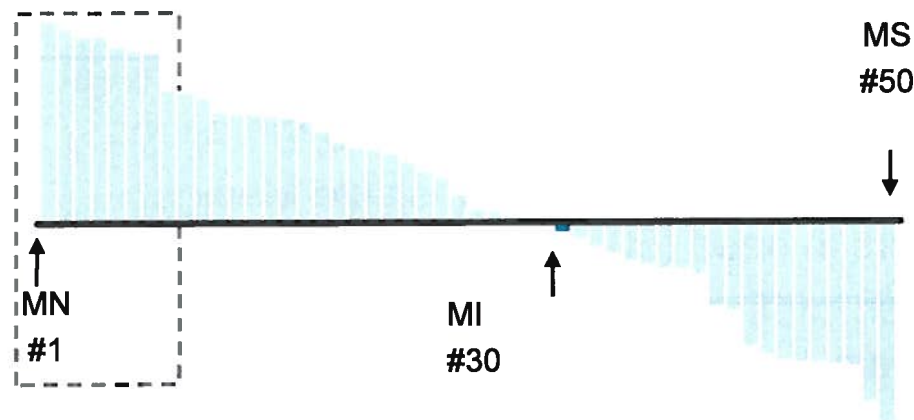
**\$1.5 billion contribution can be used for health care programs to make a significant impact on Michigan health**

Michigan is currently ranked 30th out of 50 states on its overall health status ...

### State health status indicator composite score relative to national weighted average

Average ranking, 2000-2009

Top quartile



- Michigan is ranked number 30 based on its overall health status indicator; ranking lower on key health care areas are as follows:
  - Number 39 on diabetes
  - Number 33 on smoking
  - Number 42 on obesity
- Focused, outcome driven spending could result in significant improvements even by attaining national average**

... and improvements to health status can drive significant economic competitiveness

- Poor population health drives significant labor force productivity and economic performance loss
  - Lost economic output due to health reasons represents \$260 billion per year in the United States<sup>1</sup>
- Given Michigan's health status ranking, it is likely to bear a disproportionate share of this economic loss
- BCBSM's contributions can drive a significant reduction in the economic loss by:
  - Improve the citizens' health
  - Improve overall productivity
  - Create a more competitive business climate with lower health care costs
- Even a modest improvement (e.g., 5%) can drive as much as a half-billion dollars in annual improvement in productivity, encouraging a more competitive business climate**

<sup>1</sup> Health reasons include not working, sick days, and subpar productivity



## UNPRECEDENTED CONTRIBUTION

**BCBSM's \$1.5 Billion contribution would far exceed any other contribution from nonprofit to nonprofit transitions**

EXAMPLES

Not for profit mutuals	Total contributions USD millions	Membership at mutualization Millions	Type	Year of mutualization
Idaho	0	0.6	Mutual	1994
Illinois <sup>1</sup>	124	2.4	Mutual	1982
North Dakota	0	0.4	Mutual	1998
New Mexico <sup>2</sup>	55	0.2	Mutual	2001
Oklahoma	0	0.6	Mutual	2005
Texas	10	4.8 <sup>3</sup>	Mutual	1998
Proposed Michigan	1,500	4.3		2012

- Contribution would be larger than any other nonprofit mutualizations
- BCBSM is committed to nonprofit status and to retain jobs within Michigan

<sup>1</sup> Illinois mutualized to join HCSC in 1984. In 1998, BCBS Illinois merged with BCBS Texas (then a non-mutual non-profit) to form HCSC under mutual structure.

<sup>2</sup> Total contributions of \$55M; \$20M endowment to its foundation and \$35M towards existing liabilities.

<sup>3</sup> Represents current membership, membership at mutualization not available.

## COMMITMENT TO MICHIGAN

**Governor Snyder's proposal guarantees that BCBSM will continue to be a nonprofit, Michigan-based health insurer**

**BCBSM has been and will always be committed to being a Michigan company serving the people of Michigan**

- The legislation would not allow BCBSM to become a for-profit company
- BCBSM would not be sold to an out of state company, preserving jobs and growth opportunities here in Michigan
- BCBSM will continue to be governed with members on its board of directors representing diverse health care stakeholders
- BCBSM will continue to serve as insurer of last resort until 2014, when all insurers will share that responsibility

**Remaining nonprofit allows us to retain our focus on providing access to affordable care by keeping costs and margins low -- not maximizing profit**

## COMMITMENT TO MICHIGAN

**BCBSM is not being sold or converting to a for-profit; consequently, a “valuation” is not necessary**

- In cases where a nonprofit converts to a for-profit company, it is tradition to do a “valuation” of the assets of the nonprofit organization before those assets are sold
- **BCBSM is neither being sold nor being converted to a for-profit company. In fact, these bills prohibit BCBSM from becoming a for-profit company**
- In the unlikely event of a sale, however, the “Schuette” amendment adopted in the Senate ensures that the people of Michigan would then be entitled to proceeds equal to the fair market value of Blue Cross and its subsidiaries at the time of the transaction

*The legislation now assures that the assets of Blue Cross will be protected with a security provision which “locks in” the assets to ensure that the people of Michigan will remain the owners of those assets forever. Forever.... Should Blue Cross decide to go public or merge with another company in the future, all the proceeds of that sale, potentially billions of dollars, would be paid over to the people of Michigan.*

**– Attorney General Bill Schuette** (Detroit News, 10/30/12)

## **COMMITMENT TO MICHIGAN**

### **Governor Snyder's plan ensures Seniors will continue to have access to affordable, high quality care**

- The legislation ensures the AG agreement to freeze Medigap Rates for the next four years will stay in place
- After the freeze, the legislation specifies that over half of the revenue spent yearly from the \$1.5 billion contribution will be a targeted, more effective Medigap program to help Seniors in need
- This new Medigap structure will not require small business to pay more for BCBSM insurance to fund the subsidy – which harms their ability to provide insurance for their employees and create jobs

## COMMITMENT TO MICHIGAN

**Seniors have health coverage alternatives to Medigap that are similar in cost, yet offer more comprehensive benefits**

	Medigap package		Medicare Advantage package		
	Coverage	Included?	Coverage	Included?	
Health benefits offered	▪ Medicare Part A	✓	▪ Medicare Part A	✓	Most Medicare Advantage plans provide at least the same coverage and often at a lower cost (including some with Part B subsidy)
	▪ Medicare Part B	✓	▪ Medicare Part B	✓	
	▪ Prescription benefits	✓	▪ Prescription benefits	✓	
	▪ Vision	✓	▪ Dental	✓	
Oakland county example			▪ Vision	✓	In many cases, Medicare Advantage provides better coverage at a meaningfully lower cost
			▪ Coverage for conditions excluded under Medigap (infusion therapy, etc.)	✓	
	Medicare Part B	99.90	Medicare Part B	99.90	
	BCBSM Legacy Medigap	122.86	BCBSM Medicare Plus PPO	112.40	
	BCBSM PDP B Premium	87.30	Total OOP	243.0	
	Total OOP	75			
	Monthly total	385	Monthly total	355	MA plan includes dental <sup>1</sup>
	Yearly Total	4,620	Yearly Total	4,260	

<sup>1</sup> Dental coverage is approximately \$35 to \$40 per month in total costs if purchased separately



## COMMITMENT TO MICHIGAN

### BCBSM will remain committed to Michigan

*Michigan jobs:*  
BCBSM  
supports over  
7,000 jobs

*Michigan cities:*  
97% of Blue  
workforce is  
located in the  
downtown areas  
of Detroit,  
Lansing and  
Grand Rapids

*Michigan  
economy:*  
BCBSM has  
spent over \$331  
million in 2010  
with Michigan-  
based suppliers

*Michigan health:*  
Provides health  
insurance to  
over 4 million  
people  
regardless of zip  
code

- BCBSM is a **nonprofit Michigan company**, an **independent** licensee of the Blue Cross and Blue Shield Association, that represents our members to ensure they have access to the health care they need, when they need it and at a price they can afford.
- For the past 70 years, BCBSM has worked as a **committed partner** with health care providers, businesses, labor, state government and consumers to improve Michigan all around

BCBSM's goals and purpose would remain the same:  
Remain committed to Michigan, expand access to health care,  
control health care costs, and improve health care quality

## COMMITMENT TO MICHIGAN

### Consumers will benefit and be protected with a Modern Health Insurance Market Place

- The proposal will create more competition, resulting in **more and better choices for consumers** in a functioning market place
- Federal law includes many protections for consumers, including:
  - **Requires that insurers guarantee issue** coverage to all who apply, prohibiting them from rejecting those that have a medical condition
  - **Prohibits insurers from dropping health coverage** when people get sick
  - Establishes Medical Loss Ratio (MLR) standards that **require that insurers spend at least 80% of premium dollars for medical care** – not administrative costs
  - **Ends lifetime benefit limits** and restricts annual limits
- **BCBSM will be required to continue to guarantee issue health coverage until federal law requires all insurers, including BCBSM, to do so in 2014**



## We should act now to modernize Michigan's health insurance market

### Key features of Governor's plan:

1. Regulates all health insurers under the same set of rules – creating a **level playing field** to increase competition, reduce health care costs, improve quality, and give customers more choices while also ensuring that **BCBSM pays state taxes**
2. Establishes an **unprecedented \$1.5 billion contribution** from BCBSM for the health of Michigan's people
3. Ensures that BCBSM will continue to be a **nonprofit, Michigan based health insurer** dedicated to guaranteeing that all Michigan citizens have access to high-quality, affordable health insurance

**Questions?**